



MINUTES

**Meeting of the Investment Committee
of the Board of Trustees of the
State Universities Retirement System
1:00 p.m., Thursday, February 10, 2011
The Northern Trust, 50 South LaSalle Street
London Room B9, Chicago, Illinois 60603**

The following Trustees were present: Dr. J. Fred Giertz, Chair; Dr. Jeffrey Beaulieu, Dr. John Engstrom, Ms. Dorinda Miller, Mr. Steven Rogers, Mr. Anthony Vasquez, Mr. Mitchell Vogel and Dr. Marva Williams.

Others present: Mr. William Mabe, Executive Director; Ms. Judith Parker, Associate Executive Director; Mr. Daniel L. Allen, Chief Investment Officer, Mr. Douglas Wesley, Deputy Chief Investment Officer; Ms. Kimberly Pollitt, Senior Investment Officer; Mr. Joseph Duncan, Investment Officer; Ms. Marilyn Branson, Investment Governance and Compliance Officer; Ms. Stefanie Rice, Executive Assistant; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Ms. Patti Somerville-Koulouris of the Northern Trust Company; Mr. Edgar Hernandez and Ms. Renay Manley of the Service Employees International Union (SEIU).

Roll call attendance was taken. Trustee Beaulieu, present; Trustee Berns, absent; Trustee Cassidy, absent; Trustee Engstrom, present; Trustee Giertz, present; Trustee Hightman, absent; Trustee Miller, present; Trustee Rogers, present; Trustee Vasquez, present; Trustee Vogel present; Trustee Williams present.

Trustee Berns appeared shortly after roll was taken.

Trustee Giertz called the meeting to order at approximately 1:00 p.m.

Trustee Cassidy is unable to physically attend the meeting due to employment commitments. Trustee Rogers moves that:

- Trustee Cassidy be allowed to participate via teleconference.

Motion seconded and carried with all Trustees present voting in favor.

APPROVAL OF MINUTES

Trustee Giertz presented the Minutes from the Investment Committee meeting of December 9, 2010. Trustee Beaulieu moved that:

- The Minutes from the December 9, 2010, Investment Committee meeting be approved as present.

Motion seconded and carried with all Trustees present voting in favor.

Copies of staffs' memorandums entitled "Report from the December 9, 2010 Investment Committee Meeting" and "Investment Contracts Approved" are incorporated as a part of these Minutes as [Exhibit 1](#) and [Exhibit 2](#).

REVIEW OF CLOSED SESSION MINUTES

Trustee Giertz presented the closed session Minutes from the Investment Committee meeting of December 9, 2010. Trustee Engstrom moved that:

- The closed session Minutes from the December 9, 2010, Investment Committee meeting be approved as presented and opened.

Motion seconded and carried with all Trustees present voting in favor.

INTRODUCTION AND EXPECTATIONS OF THE CALLAN ASSOCIATES TEAM

Mr. Daniel Allen introduced the Callan Associates Team composed of the lead consultant Mr. Ryan Ball, Senior Investment Consultant, and Mr. Mark Kline, Executive Vice President, to the Committee providing background as to each. In addition to noting the multitude of tools made available by Callan to SURS for the monitoring of funds, Callan also provides a wide variety of educational opportunities for the Trustees and staff.

A copy of staff's memorandum entitled "Introduction of the Callan Associates Investment Consultant Relationship" is attached to these Minutes as [Exhibit 3](#). A copy of a letter from Callan Associates dated January 19, 2011 is made a part of these Minutes as [Exhibit 4](#).

REPORT TO THE GOVERNOR AND GENERAL ASSEMBLY OF USE OF EMERGING INVESTMENT MANAGERS

Mr. Allen reported that the Report to the Governor and General Assembly Regarding the Use of Emerging Investment Managers was distributed in accordance with Public Act 96-

0006. He further indicated that the report is made available on the SURS website. At the end of fiscal year 2010, 16.7% of the SURS Investment Portfolio was managed by minority-, female- or persons with a disability-owned (MFDB) managers; that percentage has subsequently increased to 19%. Some discussion followed regarding the development of the program and the steadily increasing figures.

Trustee Rogers moved that:

- The annual Report to the Governor and General Assembly Regarding Use of Emerging Investment Managers for the period ending June 30, 2010, be received and filed.

Motion seconded and carried with all Trustees present voting in favor.

A copy of staff's memorandum entitled "Report to the Governor and General Assembly Regarding Use of Emerging Investment Managers" is made a part of these Minutes as [Exhibit 5](#).

COMMENCEMENT OF THE ASSET / LIABILITY STUDY PROCESS

Mr. Allen provided a brief history of the previous asset/liability study conducted in 2008, the outcomes of that study and where SURS stands in comparison to the recommended target range for global equity, real estate and opportunity fund investments. There were discussions regarding asset liability versus asset allocation with Mr. Ryan Ball defining the two terms. Mr. Allen advised that SURS is currently in the midst of an actuarial experience study. Discussions continued pertaining to the logistics of the studies and it was advised that updates will be presented to the Committee at subsequent meetings. The asset/liability study is anticipated to be completed by June 9, 2011.

A copy of staff's memorandum entitled "Asset / Liability Study" is incorporated as a part of these Minutes as [Exhibit 6](#). A copy of a letter from Callan Associates dated January 19, 2011, is incorporated as a part of these Minutes as [Exhibit 7](#).

DIRECT REAL ESTATE FUNDS ANNUAL MANAGER REVIEWS

Mr. Allen introduced Sally Haskins, Senior Vice President of Callan Associates. Ms. Haskins provided a presentation on the real estate markets. A copy of Callan's presentation entitled "Real Estate Market Overview" is incorporated as a part of these Minutes as [Exhibit 8](#). It was noted that said presentation will count towards the Trustees' educational requirements pursuant to Public Act 96-0006.

Mr. Joseph Duncan summarized SURS' direct real estate program. Organizational and performance issues were reviewed.

At the conclusion of the review, the following motions were made:

Trustee Beaulieu moved that:

- RREEF America II be retained as a direct real estate manager.

Motion seconded and carried with all Trustees voting in favor.

Trustee Williams moved that:

- UBS Trumbull Property Fund be retained as a direct real estate manager.

Motion seconded and carried with all Trustees voting in favor.

A copy of staff's memorandum entitled "Executive Summary of the Direct Real Estate Asset Class" is incorporated as a part of these Minutes as [Exhibit 9](#).

REAL ESTATE INVESTMENT TRUST SECURITIES (REITS) **ANNUAL MANAGER REVIEWS**

Ms. Kimberly Pollitt reviewed the real estate investment trust asset class. Organizational and performance issues were reviewed. Discussions continued.

At the conclusion of discussions, the following motions were made:

Trustee Vogel moved that:

- ING Clarion Real Estate Securities be retained as a domestic REIT manager.

Motion seconded and carried with all Trustees voting in favor.

Trustee Beaulieu moved that:

- ING Clarion Real Estate Securities be retained as a global REIT manager.

Motion seconded and carried with all Trustees voting in favor.

Trustee Miller moved that:

- RREEF be retained as a U.S. REIT manager.

Motion seconded and carried with all Trustees voting in favor.

Trustee Vogel moved that

- RREEF be retained as a global REIT manager.

Motion seconded and carried with all Trustees voting in favor.

A copy of staff's memorandum entitled "Executive Summary of the Real Estate Investment Trusts (REITs) Asset Class" is incorporated as a part of these Minutes as [Exhibit 10](#).

INDEX FUND ANNUAL MANAGER REVIEWS

Mr. Douglas Wesley provided a review of the index fund providers. Discussions were had regarding organizational changes and fees for active and passive funds.

At the conclusion of discussions the following motions were made:

Trustee Beaulieu moved that:

- Northern Trust Investments be retained as a U.S. equity index fund manager.

Motion seconded and carried with all Trustees voting in favor.

Trustee Williams moved that:

- BlackRock Institutional Trust Company be retained as an index fund manager.

Motion seconded and carried with all Trustees voting in favor.

Trustee Vasquez moved that:

- RhumbLine Advisers be retained as a U.S. equity index fund manager.

Motion seconded and carried with all Trustees voting in favor.

Trustee Rogers moved that:

- State Street Global Advisors be retained as a U.S. fixed income index fund manager.

Motion seconded and carried with all Trustees voting in favor.

A copy of staff memorandum entitled “Executive Summary of Index Fund Provider Reviews” is incorporated as a part of these Minutes as [Exhibit 11](#).

STATUS OF PENSION OBLIGATION BOND PROCEEDS

Mr. Allen reported to the Board that the State of Illinois released a Preliminary Offering Statement with the intent to issue \$3.7 billion of General Obligation Bonds. SURS is expected to receive \$775,781,000 in total for the Fiscal Year 2011 net State contribution. Mr. Allen outlined the expected allocation strategy for the bond proceeds. Discussions continued.

A copy of staff’s memorandum entitled “Receipt of Proceeds from Pension Obligation Notes Transaction” is incorporated as a part of these Minutes as [Exhibit 12](#).

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

Mr. Dan Allen reported a positive 2011 fiscal year-to-date performance with an investment return of 16.8% through December 2010. He specifically noted an increase in the market value funding ratio.

The following items were provided for reference and are incorporated as a part of these Minutes:

1. [Exhibit 13](#) - SURS Funding Status 2011 Fiscal Year-to-Date Results
2. [Exhibit 14](#) - Illinois Public Pension Funds Total Fund Performance for periods ending September 30, 2010
3. [Exhibit 15](#) - Staff memorandum entitled “Manager Diversity Program US Equity Small and Mid Cap Search Update
4. [Exhibit 16](#) - Staff memorandum entitled “Watch List Update”
5. [Exhibit 17](#) - Staff memorandum entitled “December 2010 Investment Manager Watch List”
6. [Exhibit 18](#) - Letter from T. Rowe Price dated September 28, 2010
7. [Exhibit 19](#) - Investment Compliance Activities 2011
8. [Exhibit 20](#) - Fiscal Year 2011-2012 Work Plan
9. [Exhibit 21](#) - Schedule of Formal Reviews for SURS Investment Managers Defined Benefit Plan & SMP
10. [Exhibit 22](#) - Schedule of Investment Committee Meetings

At the conclusion of the Investment Committee agenda, discussions were had regarding the frequency of meetings held by the Board and the necessity of the same. Fiduciary counsel was asked to research the same and report back to the Board.

There being no further business to come before the Committee, Trustee Beaulieu moved that the meeting be adjourned. Motion seconded and carried.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "William E. Mabe".

Mr. William E. Mabe
Secretary, Board of Trustees

WEM:ssr